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Government Report on the Situation in Rural Russia

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Report Highlights:

At a recent joint meeting of the State Council of the Russian Federation and the Presidential Council on Implementation of National Priority Projects and Demography Policy the “sustainable development of rural Russia” was announced as one of the national priority projects of the Russian Federation.

Discussion at this meeting was focused on the Ministry of Agriculture’s comprehensive report on the status of rural territories in Russia. As a result of this meeting, President Vladimir Putin assigned the Government to develop a long-term strategy for sustainable development of rural territories of the Russian Federation by February 1, 2015.

General Information:

At a meeting of the State Council of the Russian Federation and the Presidential Council on Implementation of National Priority Projects and Demography Policy held on April 21, 2014, the “sustainable development of rural Russia” was announced as one of the priority national projects of the Russian Federation. As a result of this meeting, President Vladimir Putin assigned the Government of the Russian Federation to develop and adopt a long-term strategy for the sustainable development of rural territories of the Russian Federation by February 1, 2015. Discussion at the meeting was based on the Ministry of Agriculture’s comprehensive report on the status and development of rural territories in Russia. The Russian text of the report is on the web-site of the Ministry of Agriculture:

http://www.mcx.ru/documents/file_document/show/28544..htm. A brief overview of the 176-page report and the summary of Assignments of the President of the Russian Federation are below. The unofficial translation of the table of contents of the report is in Annex 1.

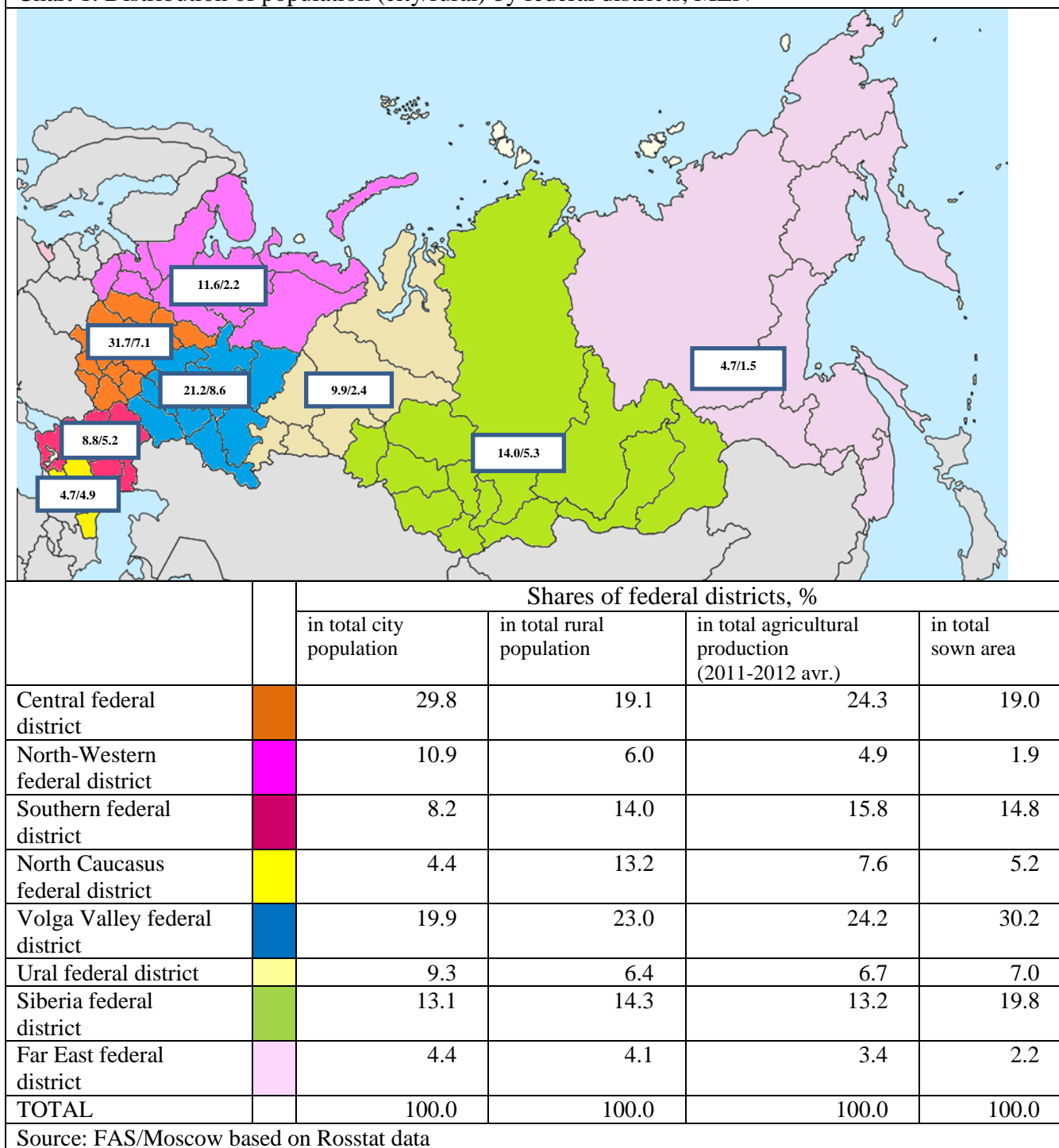
Overview of the Report on the Status and Development of Rural Territories in Russia

Status of Rural Population

According to the Russian Federal Statistical Service (Rosstat), the rural population of Russia is 37.1 million people (26 percent of the total Russian population), including a working-age population of 21.4 million. The distribution of city and rural population by federal districts is shown in Chart 1. The majority of Russia’s urban population (73 percent) and Russia’s rural population (75 percent) live in European Russia (the Central, North-Western, Southern, North Caucasus and Volga Valley federal districts). However, the distribution between the urban and rural population varies greatly by federal districts. Thus, in the Central and North-Western federal districts with large metropolitan areas and cities like Moscow and St. Petersburg, the share of rural population in the total population is only 18 and 16 percent. In the North Caucasus federal district, however, the share of the rural population is 51 percent. In the Southern and Volga Valley federal districts the share of the rural population is 37 and 30 percent respectively. The vast territories of Ural, Siberia and the Far East federal districts are less populated: only 27 percent of all Russia’s urban population and 25 percent of all Russia’s rural population live on the combined territory of these three districts.

As of the end of 2012, there were 153,100 rural settlements in Russia, of which only 133,700 settlements were permanently inhabited. In 73 percent of rural settlements the number of inhabitants is less than 200, and settlements with over 2,000 inhabitants comprise only 2 percent of the total. Agriculture still remains the major occupation of the rural working population, but the share of the rural working population employed in agriculture decreased in Russia from 24.2 percent in 2009 to 20.9 percent in 2013. By federal district the share of rural working population employed in agriculture varied in 2013 from 10.1 percent in the North-Western FD (in 2009 – 12.6 percent), to 29.3 percent in the North Caucasus FD (30.4 percent in 2009).

Chart 1. Distribution of population (city/rural) by federal districts, MLN



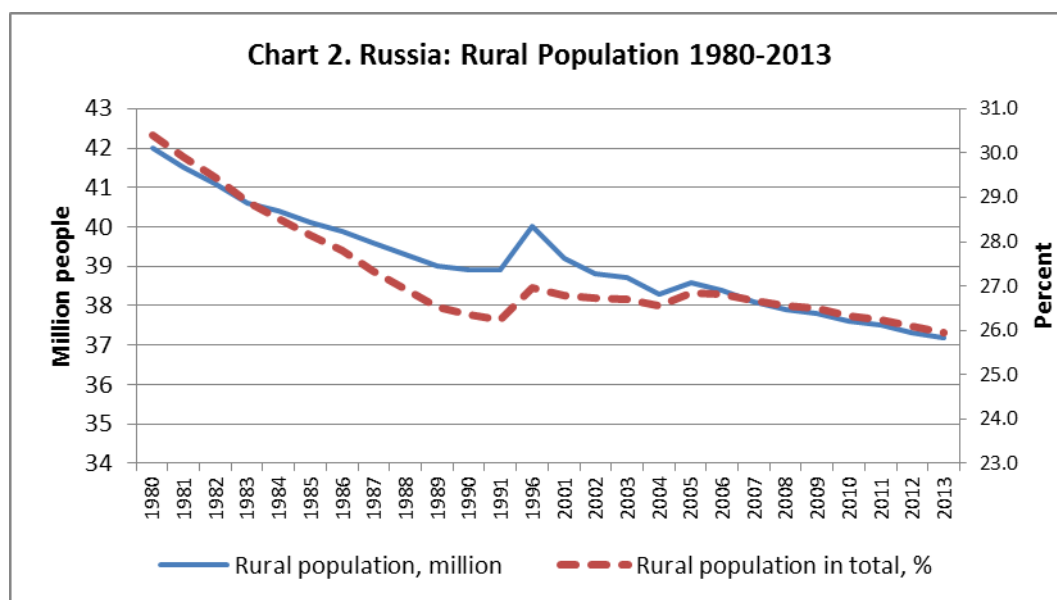
The level of poverty in rural territories is significantly higher than in the cities. In 2012, 40.4 percent of the Russian low-income population lived in rural territories. Children and young people are most affected by poverty. The share of children age 16 years and below in the overall rural population is 19.3 percent, but their share of the low-income rural population is 28.5 percent, and their share of the population in very poor conditions (i.e. families with many children where the burden per working

members of the family is very heavy) is 33.8 percent. Young people (age 16-30 years) are 20 percent of the rural population, but their share of the low-income rural population is 24.2 percent, and in very poor conditions is 24.3 percent. This is due to the low level of education and professional training, and the high level of unemployment in rural territories. On the other hand, pensioners comprise 23.1 percent of rural population, but their share of the low-income and very poor rural population is only 9.3 percent and 7 percent respectively. This is because most older rural dwellers receive pensions and live without dependents and as a result are often better-off than the rural working populations with large numbers of dependents.

The level of unemployment in rural areas has been decreasing in the last 3 years, but it is still higher than in metropolitan areas, and differs by federal districts and provinces. Thus, the average level of rural unemployment in Russia is 8.3 percent of the rural population of “economically active ages.” While in the Central federal district (FD) it is only 5.4 percent, and in the Volga Valley FD is only 6.2 percent, in the North Caucasus FD it is 14.3 percent and in the Far East FD it is 11.0 percent. In 2013, the average monthly wages in agriculture remained only 52.2 percent of average wages in the Russian economy in general – 15,637 rubles (\$474) vs. 29,960 rubles (\$908) per month.

The low standard of living and shortage of necessary infrastructure and services in rural areas are the main reasons for the migration of the rural population, especially young people, to towns and cities. Between the National Census 1989 and the National Census 2010, the number of non-inhabited settlements increased from 9,400 to 19,400. According to the current poll, 30 percent of the rural population (including 50 percent of youth) intend or consider the possibility to leave their native village or township for cities.

The most rapid decrease of population in 2000-2014 has been in the North Western and Siberian federal districts (FDs) where rural population decreased from 6.5 percent and 15.6 percent of the total Russia’s rural population to 6.0 percent and 14.3 percent. The share of the North-Caucasus FD increased in the same time from 11.1 percent to 13.2 percent.



Source: Rosstat

Quality of Life in Rural Territories

Rural roads. By the end of 2012 the length of rural roads with solid surfacing leading to rural settlements was 245,300 km. Only 69.1 percent (103,000) of the total rural settlements were connected to roads with solid surfacing.

Table 1. Length of Rural Roads, 1,000 km			
	2000	2012	2013 (prelim.)
Regional or inter-municipal and local motor roads of mutual use, total	538.1	1,232.6	1,345.2
Including:			
- Roads with solid surfacing	486.4	877.2	935.6
including			
o Regional or inter-municipal motor roads of mutual use	486.4	461.4	460.7
o Local motor roads (in 2012 include streets)	NA	415.7	474.9
Agricultural motor roads on non-mutual use	161.2	50.9	NA
including:			
- Roads with solid surfacing	111.3	34.6	NA

Source: Ministry of Agriculture

Rural Housing and Communal Services. By the beginning of 2013 the housing in rural areas (so called, housing fund for living) was 923.3 million m², 88.2 percent of which was in individual private property. Compared to 2000 the rural housing fund increased by 20 percent, exclusively due to increased private housing by 217 million m². The living conditions in rural houses also improved but still lags behind those in metropolitan areas (Table 2):

Table 2. Share of housing area with facilities by the end of 2012, Percent						
	Water pipes	Wastewater disposal	Central heating	Baths (showers)	Gas	Hot water supply
Rural housing area	49.1	39.9	61.3	29.4	73.8	26.5
Housing area in the cities	89.6	87.5	92.2	81.4	66.2	80.4

Source: Ministry of Agriculture

In 2012, the most recent year of a more or less comprehensive survey of rural territories, the number of rural settlements with communal water piping systems was only 48,300¹ (32 percent of the total). By provinces the variations were very significant: in Kabardino-Balkaria republic (N.-Caucasus FD), Ingushetia republic (N.-Caucasus FD), and in Krasnodar kray (Southern FD) the percent of rural settlements that had water pipe systems were 93 percent, 100 percent and 88 percent, respectively, and in Novosibirsk oblast (Siberia FD) was 88 percent. Meanwhile, the share of rural settlements with water pipe systems in Tyva Republic (Siberia FD) was only 1 percent, in Saha Republic (Far East FD) was 6 percent, in Buryatia republic (Siberia FD) was 8 percent, in Baikal kray (Siberia FD) was 7 percent, in Arkhangelsk oblast (North Western FD) was 5 percent, in Leningrad oblast (North Western FD) and in

¹ The methods of gas, water, electricity, and fuel supply in rural territories have been inherited mostly from the Soviet times and are based on communal-type systems. Individual water wells, individual gas and bio-fuel outlets are not found in rural Russia. They have appeared only in “dacha” and suburban places with high standards of living.

Novgorod oblast (North Western FD) was 6 percent and 8 percent of the total number of settlements in these districts respectively.

Gas supply in rural areas is the monopoly of Gazprom, and the reported share of housing areas with gas supply in rural territories is actually higher than in metropolitan areas (probably because cities also use more electricity and crude oil as sources of energy supply). In the Soviet times the “gasification” of rural territories was one of Gazprom’s priorities. However, Gazprom’s “gasification” of rural territories has been decreasing in the last 20 years. Gazprom supplies gas to rural settlements on terms that require local, municipal authorities to prepare the gas-distribution network in the given settlement (i.e. re-equip local power outlets, construct gas-pipes access to houses, re-equip houses with gas stoves, heating systems, etc.). Some municipal authorities and inhabitants of rural settlements cannot afford to pay for these works, and in 2014 Gazprom excluded from its Program of Gasification of Regions the financing of gasification of 11 Russian provinces, including Arkhangelsk, Astrakhan, Vladimir, Volgograd, Moscow, Penza, Smolensk, Tver, Ulyanovsk and Yaroslavl oblasts and Ingushetiya Republic. Alternative sources of modern energy, such as bio-fuel, are not wide spread in Russian rural territories. When they do not have gas, rural people use wood and coal for heating their houses and cooking.

Communication. Telephone communication in rural territories is lagging behind that in the cities: in 2012 only 11 out of 100 residents in rural areas, and 26 out of 100 residents in the cities had access to individual (apartments/houses) telephones. The use of mobile telephones has been increasing, although there is no data on access to mobile telephones in rural areas. However, the distribution of mobile telephones has resulted in the discontinuation of construction of landline telephone networks in many rural regions. Access to the internet in rural territories is growing. Rosstat’s research of budgets of households in rural and metropolitan reports that in 2012, 50 percent of members of rural households (41 percent in 2011), and 68 percent of members of households in the cities (62 percent in 2011) had access to the Internet. In 2012, 97.8 percent of the rural population had access to at least 1 TV channel.

Food consumption. Despite the opportunities that rural life provides for private orchards and private household farming, statistical data show that per capita consumption of major food products (except bread) in rural areas is lower than in metropolitan areas. This may be due to less waste by rural populations. According to the data, in 2012 the average member of the rural population consumed 76.1 kilograms of meat and meat products (8.9 kilograms less than in the cities), 248.8 kg of milk and dairy products (25.2 kg less than in the cities), and 61.8 kg of fruits and berries (16.7 kg less than in the cities). Meanwhile, consumption of bread and bread type products was 116.4 kg (24.7 kg more than in the cities).

Trade and Catering in Rural Areas. Trade and catering in rural areas is lagging behind metropolitan areas. In 2013 the number of retail outlets in metropolitan areas per each citizen was twice that in rural areas. By beginning of 2013 the number of retail outlets in rural territories was 229,700, including 213,800 shops and trade centers, and 14,900 small kiosks. The sales floor area per 1,000 rural people was 320 m², while trade area per 1,000 city people was 632 m².

Current Support of Development of Rural Territories

The Federal government finances the development of rural territories through different federal bodies, such as the Ministry of Agriculture, Ministry of Transportation, Ministry of Health, Ministry of Science and Education, Ministry of Communication, and others. The main feature of all these programs is that

funds from the federal budget are dependent on co-financing from provinces (so called “subjects of the federation”). Most Russian federal bodies do not separate funds allocated for rural development in their nation-wide programs. Since agricultural jobs remain the major employment of rural population, the Ministry of Agriculture was given the major authority in the development of rural territories, and since 2003 has special programs for the development of rural territories (Table 3). However, the share of funding for rural development programs in the Ministry of Agriculture’s budget is less than 12 percent overall. Given that the total funds of the Ministry of Agriculture comprise less than 3 percent of Russia’s total federal budget (i.e. actual spending), the federal support of rural development will continue to be very low.

Table 3. Ministry of Agriculture Rural Development Programs					
Name of the Program	Time period	TOTAL FUNDS, mln. Rub.	Federal funds, mln. Rub.	Funds of provinces, mln. Rub.	Non-budget funds, mln. Rub.
Social development of villages through 2013	2003-2013*	345,932	67,462	136,564	141,906
Sustainable Development of rural territories in 2014-2017 and through 2020	2014-2020* (plan)	303,200	94,400	150,600	58,200
Support of small forms of business (support of beginning farmers, support of family type livestock farms, soft term loans to small farms, support of registration of land property rights)	2013-2020	95,100	81,300	13,800	
* For reference: Ruble to U.S. Dollar exchange rate in 2003-13 fluctuated within 23 rubles to 33 rubles per \$1; in the beginning of 2014 the exchange rate increased to 35-36 rubles per \$1					

Source: Ministry of Agriculture

In their report, the Ministry of Agriculture paid special attention to the importance of small-scale agricultural business for the development of rural territories, and compared the cost of the production of livestock products at large-scale agricultural enterprises and at family-type farms in favor of the latter (Table 4). For input supply and for marketing of products of these family farms, the Ministry’s report underlines the importance of the creation of different types of cooperatives in rural areas.

Table 4. Comparison of the average cost of one cattle stall at family farm and in cattle complexes	
Type of Farm	Cost of one cattle stall, 1,000 rubles
Family type dairy farm	120.0
Family type beef/meat producing farm	96.0
Large agricultural complex specialized on milk and dairy production	521.7-835.6
Large agricultural complex specialized on beef/meat production	328.6-431.2
Note: Sources of these data are provincial and local administrations and independent experts who	

attribute the lower cost of one cattle stall at a family farm is due to the following:

- already existing engineering and service infrastructure;
- use of local, cheap building and construction materials;
- members of the family farm build (reconstruct) the farm with their own labor force;
- family farms may use already existing barns and other farm building;
- other factors

Source: Ministry of Agriculture

Presidential Assignments for the Sustainable Development of Rural Territories in Russia

As a result of the meeting held on April 21, 2014, President Vladimir Putin assigned the Government of the Russian Federation to develop and adopt by February 1, 2015 a long-term strategy for sustainable development of rural territories of the Russian Federation. The list of assignments is found on the site <http://kremlin.ru/assignments/20966>. The major assignments include the following:

- By December 15, 2014, to develop a plan of transfer of the construction and reconstruction of motor roads to rural settlements and agricultural enterprises from the Ministry of Transportation of the Russian Federation (within the Ministry of Transportation's federal target program "Development of Russia's Transportation System in 2010-2020") to the Ministry of Agriculture of the Russian Federation, and include these rural road construction activities in the federal target program "Sustainable Development of Rural Territories for 2014-2017 and for the period through 2020";
- By August 15, 2014, to prepare proposals for the development of wholesale-distribution centers for agricultural products and for the creation of necessary engineering and transportation infrastructure, systems of veterinary, sanitary and phytosanitary control and automated systems of information and accounting to serve these centers;
- By September 15, 2014, to summarize and publicize the positive examples of new types of rural settlements with well-developed production and engineering infrastructure, and positive examples of attracting young people to work in rural territories;
- By December 1, 2014, to undertake measures for the development of rural consumer cooperatives and cooperative inputs-supply centers for small business enterprises;
- By October 15, 2014, to propose improvements in banking and accounting services for small business in the rural territories of the Russian Federation;
- By October 1, 2014, to develop measures aimed at support of citizens willing to move to rural territories for living, and to improve information of rural population on issues of state support of small and middle-size business and cooperation in rural areas.

Annex 1. Content of the Report on Sustainable Development of Rural Territories in the Russian Federation

	INTRODUCTION	4
1.	Current Level and Quality of Life of Rural Population	7
1.1.	Demographic Situation	7
1.2.	Labor Market in Rural Area	11
1.3.	Level of Living of Rural Population	16
1.4.	Social and Living Conditions in Rural Area and Development Measures	22
1.4.1.	Development of Education Systems	22
1.4.2.	Modernization of Health Care System	30

1.4.3	Systems of Social Services	33
1.4.4.	Issues of Development of Culture	36
1.4.5.	Development of Physical Training and Sports	42
1.4.6.	Development of Trade and Communal Services	47
1.5	Living, Communal, Transport and Telecommunication Infrastructure	51
1.5.1.	Rural Housing	51
1.5.2.	Water Supply System	53
1.5.3.	Development of Gas Infrastructure in Rural Settlements	56
1.5.4.	Roads and Transport	57
1.5.5.	Telecommunication services	64
2.	Measures of State Support of Development of Rural Area	71
2.1.	Results and Analysis of Effectiveness of State Policy for Development of Rural Territories in 2003-2013	74
2.2.	Priorities for Sustainable Development of Rural Territories through 2020	87
2.3.	Directions for Improvement of Rural Development Policy	96
3.	Development of Small-Scale Entrepreneurship and Rural Cooperation	98
3.1.	Role of Small Forms of Business in Rural Areas	98
3.2.	Legal and Regulatory Framework	101
3.3.	Financial, Credit and other Measures of Support of Small Business	104
3.4.	Development of Cooperation	124
3.5.	Development of Non-Agricultural Business in Rural Areas (i.e. Rural Tourism)	134
	CONCLUSION	139
	ATTACHMENTS	141